

State of Hawaii Employer-Union Trust Fund Postemployment Benefits Other than Pensions

July 1, 2009 Actuarial Valuation

Final Results – EUTF Board Briefing

May 18, 2011

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Retirement Practice



Agenda

Section 1	Background
Section 2	Funding Impact
Section 3	Actuarial Liabilities
Section 4	Annual Required Contribution
Section 5	Other Issues
Section 6	Report References
Section 7	Questions???

Section 1: Background

- Other Postemployment Benefit (OPEB) Programs
 - EUTF
 - HSTA VEBA (separate valuation, combined in future) – sunset in 2010

- GASB Statements
 - GASB 43 (EUTF) and GASB 45 (Employers)
 - Accrual basis accounting for Employers
 - Effect of Statements
 - EUTF – Footnote regarding unfunded liability, effective June 30, 2007
 - Employers - annual accrual, effective fiscal year ending June 30, 2008

- EUTF Valuation
 - Based on GASB rules for Agent Multiple Employer Plans
 - Employer actuarial liabilities
 - Based on own employees (as opposed to cost sharing)
 - Employer annual costs
 - Dependent on funding levels of each respective employer
 - Required by statute to be at least equal to pay-as-you-go

Section 1: Background (cont.)

- EUTF Reporting
 - Minimal
 - Footnote disclosure

- Employer Reporting
 - Financial Statement Information
 - Annual Required Contributions (ARC) – actuarially determined annual cost
 - Annual OPEB Cost (AOC) – annual income statement expense
 - Net OPEB Obligation (NOO) – balance sheet liability; AOC less contributions
 - FYE 2010 Accounting (provided July 2010)
 - July 1, 2007 valuation basis (2009 for State)
 - Pay-as-you-go and pre-funding contributions from EUTF
 - FYE 2011 Accounting (provided October 2010 to March 2011)
 - July 1, 2009 valuation
 - FYE 2012 Accounting
 - July 1, 2009 valuation projections
 - FYE 2013 and 2014 Accounting
 - July 1, 2011 valuation

Section 1: Background (cont.)

- 2009 Valuation – Timeline of Events
 - Preliminary Valuation Results – September 2010
 - EUTF Board briefing
 - Employer Meetings
 - Employer Confirmations – October 2010 to March 2011
 - Contribution amounts – pay-as-you-go and prefunding from EUTF
 - Funding policy / discount rate – future funding expectation
 - Amortization methodology
 - Final Reports Issued – October 2010 to March 2011
 - Based on Employer confirmations

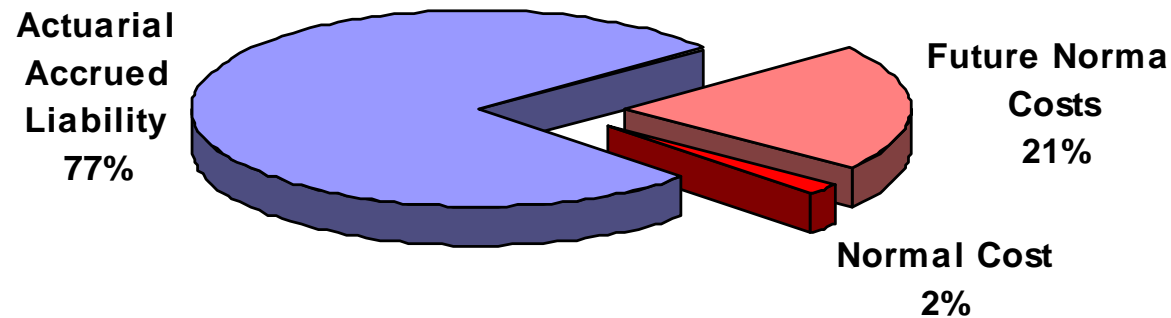
Section 2: Funding Impact

- Discount Rate Basis – Expected long-term yield on investments used to finance OPEB
 - Unfunded plans (i.e., pay-as-you-go) – based on employer assets
 - Pre-funded plans – based on plan investments
- Pre-funding enables use of higher discount rates
- Hawaii EUTF Assumptions
 - Unfunded plan – 4.0% / 5.0% (Employer assets)
 - Pre-funded plan - 7.0% (EUTF target investment return)
 - Assumption varies for each respective employer
 - Dependent upon employer's assets and funding policy

Section 3: Actuarial Liabilities

- Present Value of Benefits – past and future service
- Actuarial Accrued Liabilities – past service
- Future Normal Costs – future service
 - Normal cost is NOT pay-as-you-go amount

Present Value of Benefits

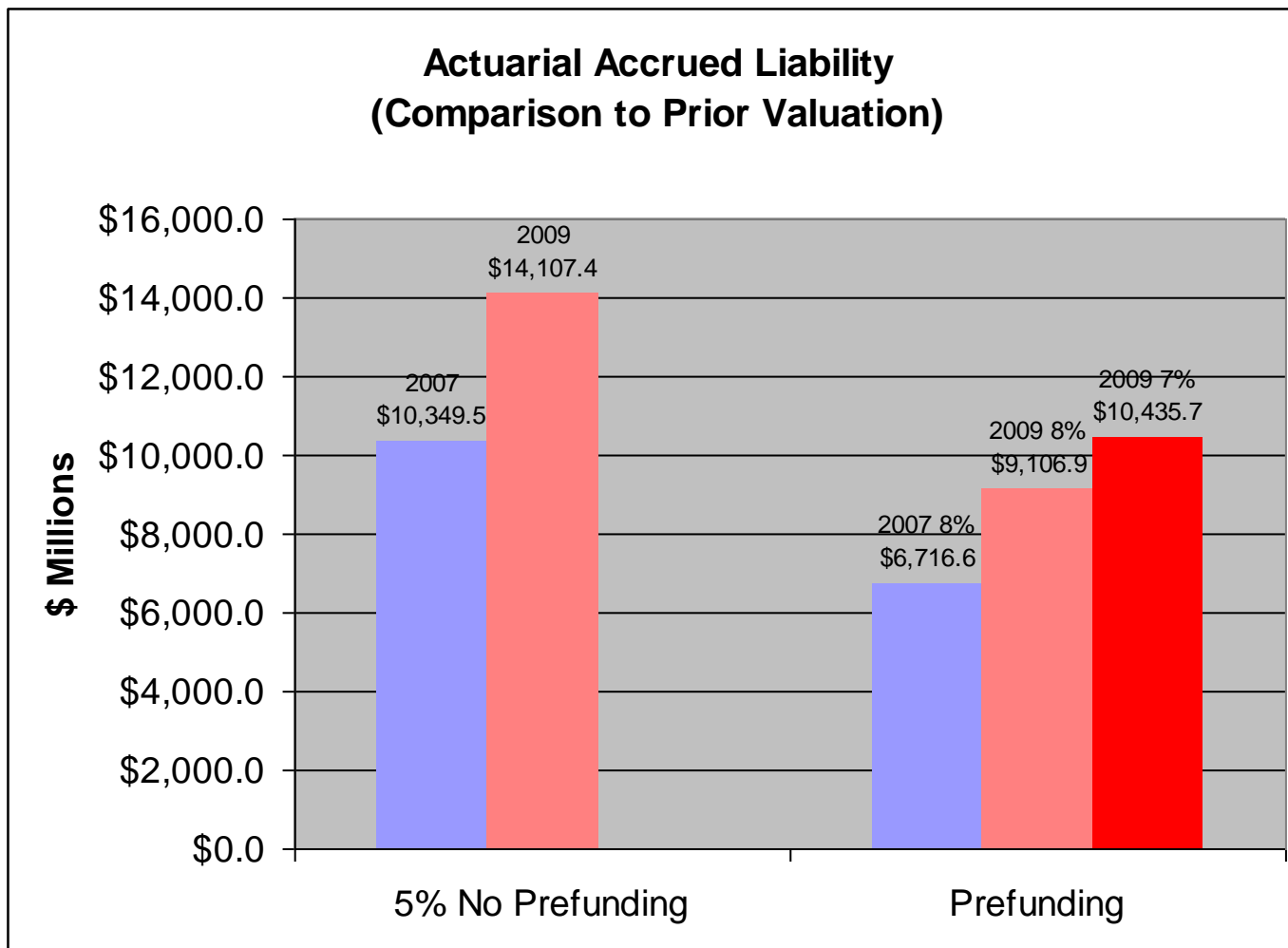


Section 3: Actuarial Liabilities (cont.)

- Why are liabilities so big?
 - Almost 100,000 members (38,000 retirees, plus actives and other eligible)
 - More with HSTA VEBA
 - 20+ years of coverage
 - \$10,000+ annual costs

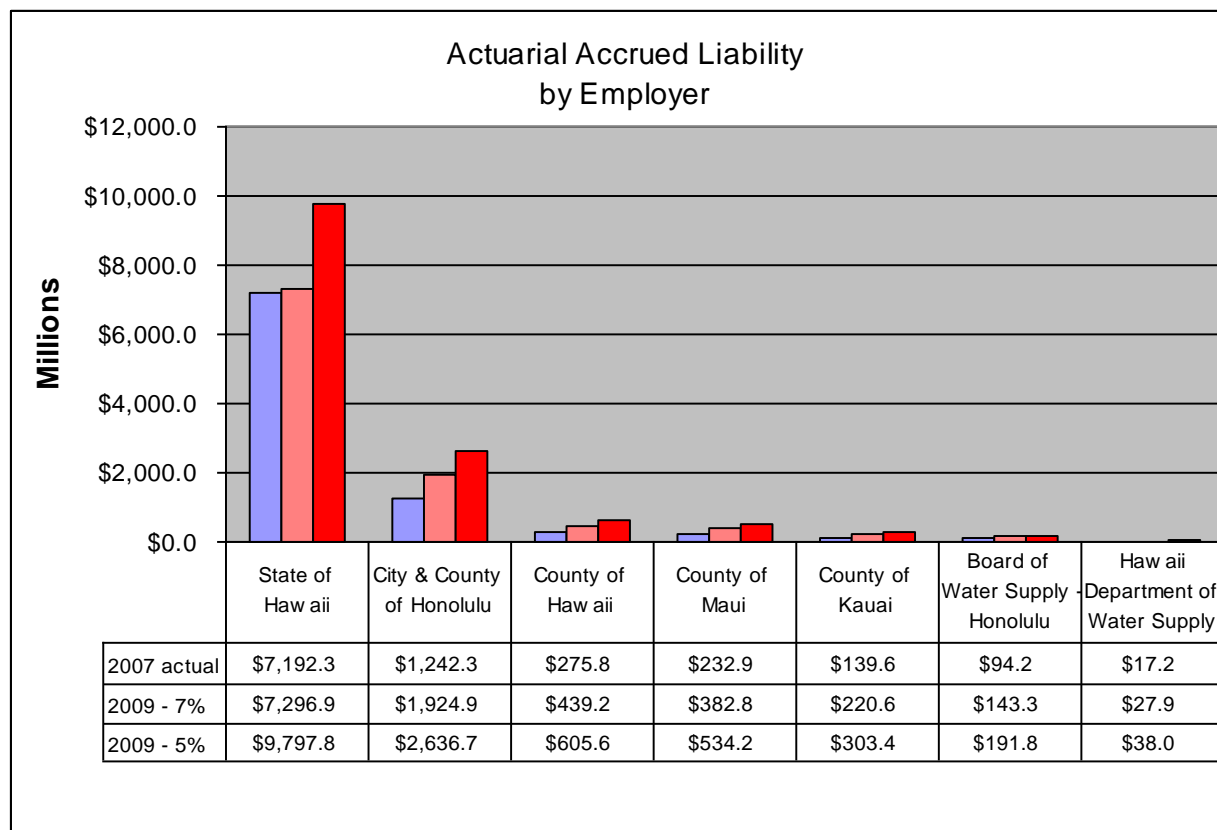
- Comparison to Prior Valuation
 - Actuarial liabilities grow due to:
 - Participants earn additional benefits
 - Decrease in discounting period
 - Healthcare costs
 - Increases greater than assumed
 - Future trend updated
 - Discount rate
 - EUTF Investments (funded) – 7% target return (8% prior valuation)
 - State discount rate (unfunded) – 4% target return (5% prior valuation)

Section 3: Actuarial Liabilities (cont.)



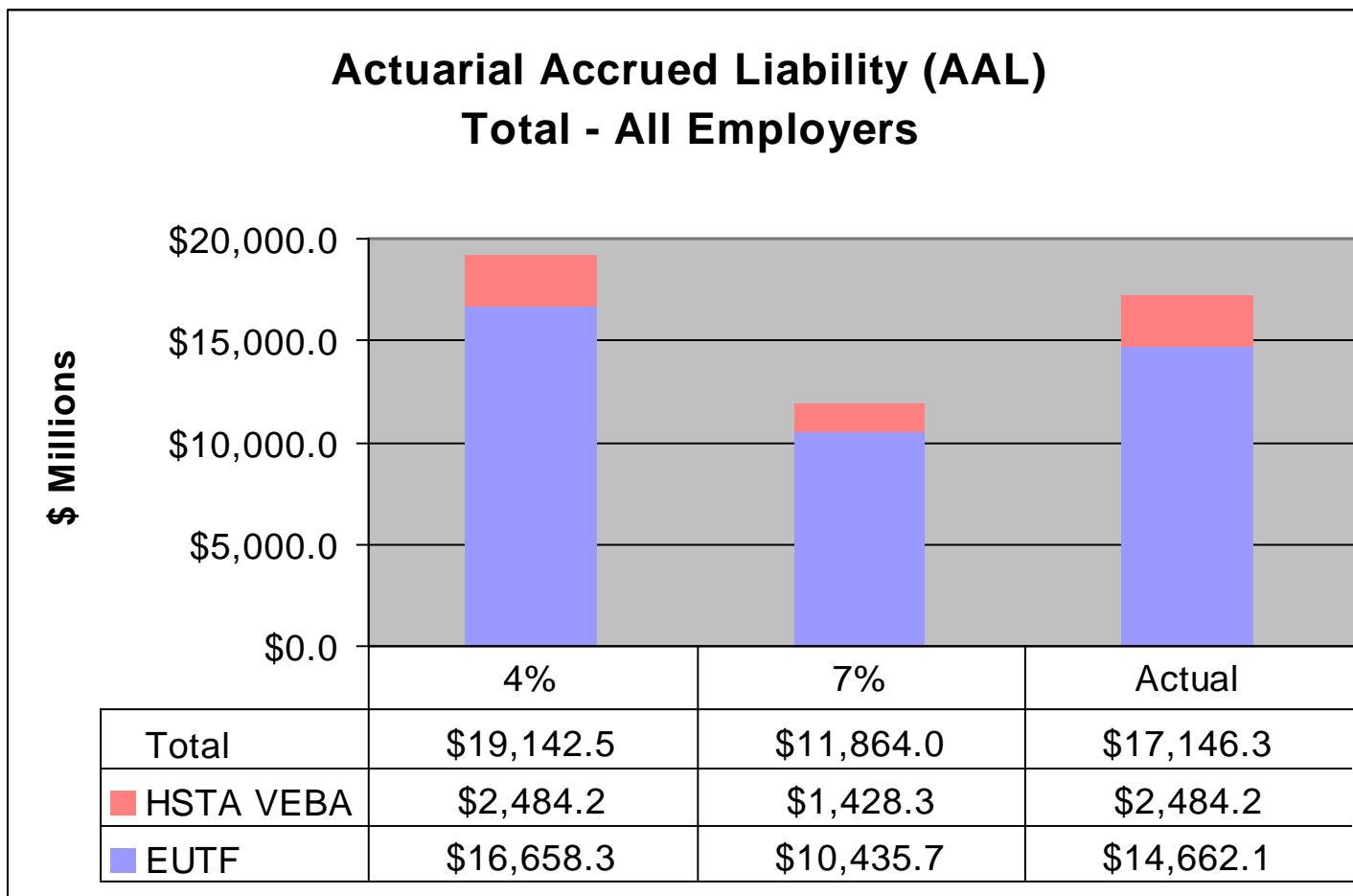
Section 3: Actuarial Liabilities (cont.)

- 2007 actual (5% or 8%) - \$9,194.3 million
- 2009 Pre-funded (7%) - \$10,435.7 million
- 2009 Unfunded (5%) - \$14,107.4 million



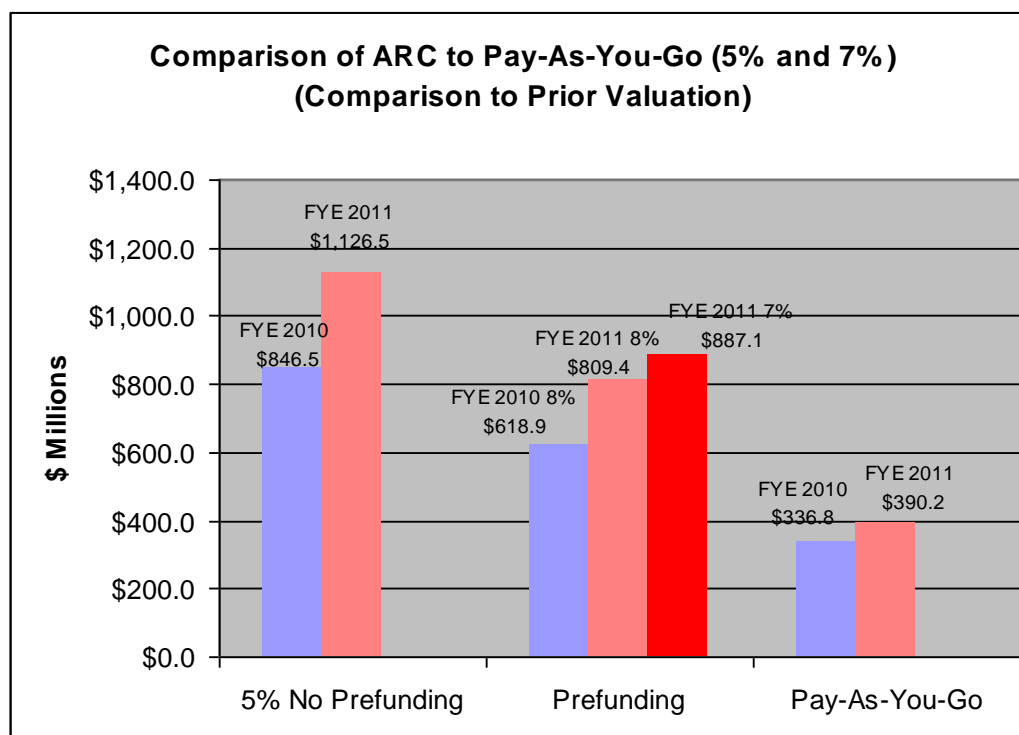
Section 3: Actuarial Liabilities (cont.)

- This chart includes EUTF and HSTA VEBA (included in plan for next valuation)



Section 4: Annual Required Contribution

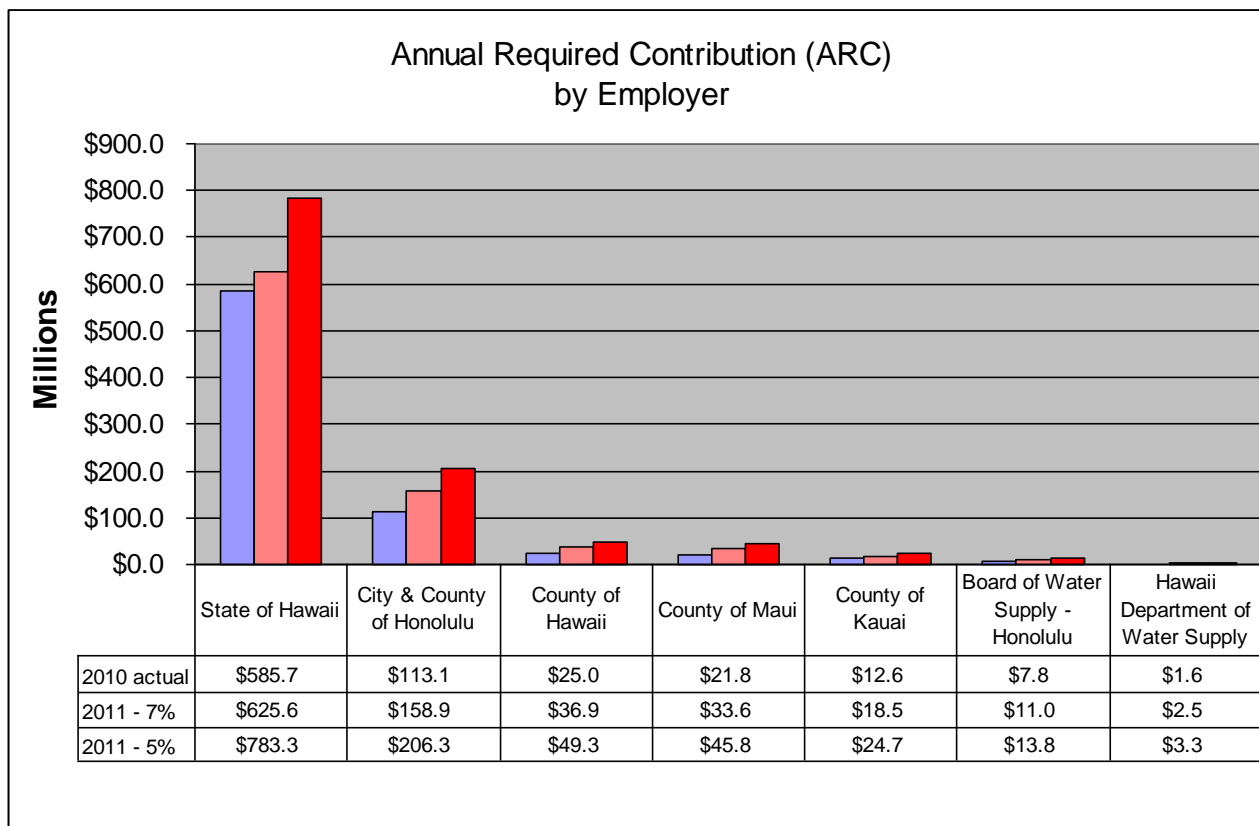
- Sum of:
 - Unfunded AAL Amortization – past service payment
 - Normal Costs – future service payment
- 2 – 3 times pay-as-you-go amount



- Costs are in addition to current payments for active employee coverage
- ARC based on prior valuation amortization method

Section 4: Annual Required Contribution (cont.)

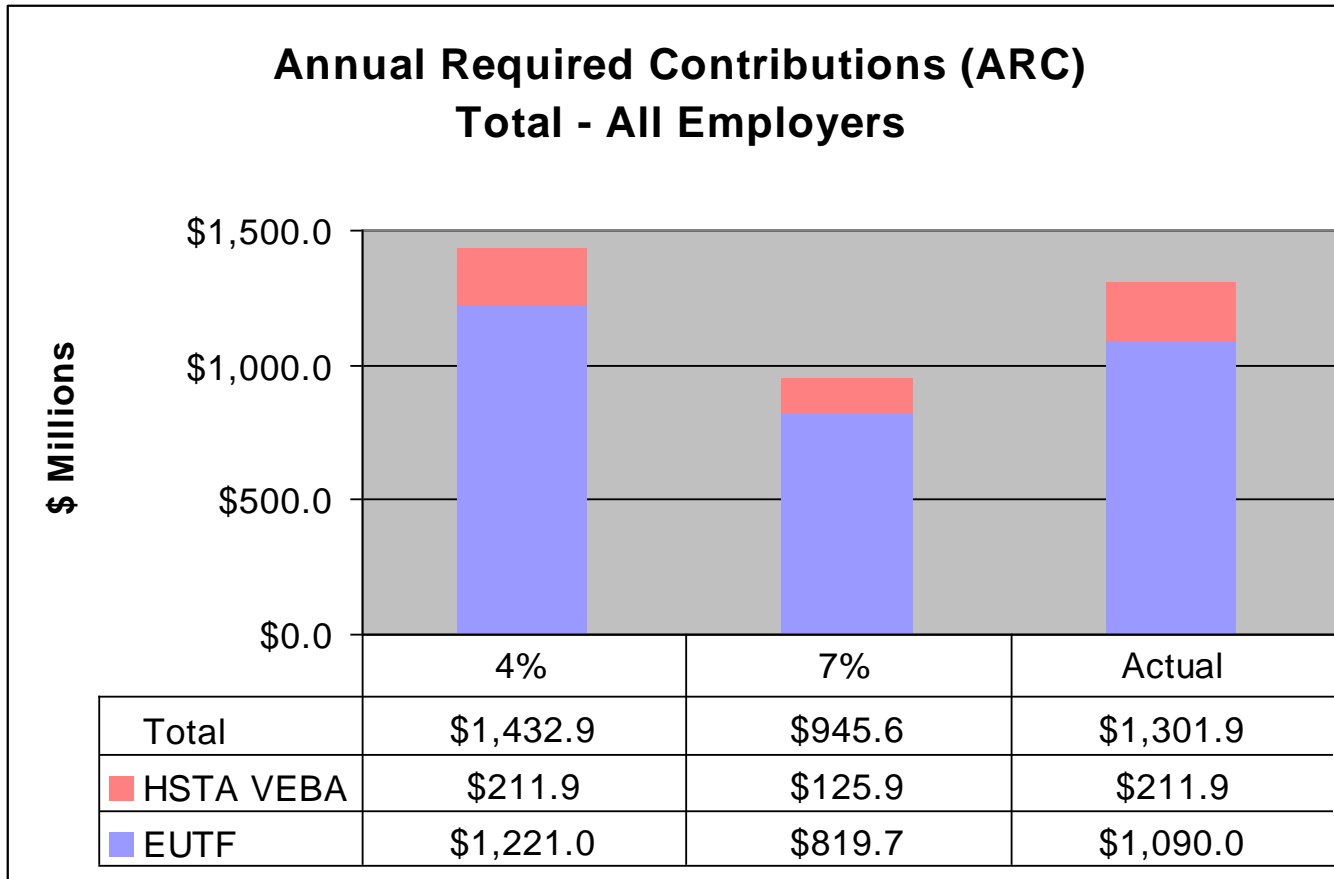
- 2010 actual (5% or 8%) - \$767.6 million
- 2011 Pre-funded (7%) - \$887.0 million
- 2011 Unfunded (5%) - \$1,126.5 million



- ARC based on prior valuation amortization method

Section 4: Annual Required Contribution (cont.)

- This chart includes EUTF and HSTA VEBA (included in plan for next valuation)



- 4% and 7% based on State's amortization method
- Actual based on Employer specific discount rates and amortization methods

Section 5: Other Issues

- Funding policy
- Bond rating impact
- 2011 Valuation – Proposed Timeline
 - Information request from Aon Hewitt – June 2011
 - Information provided by EUTF, State, ERS – July 2011
 - Preliminary results – October / November 2011
 - Final results – December 2011

Section 6: Report References

Executive summary	Exhibit 1, pg 1-5
Detailed plan actuarial liabilities (initial results)	Exhibit 3, pg 8-9
Plan assets	Exhibit 4, pg 10
Glossary of terms	Exhibit 11, pg 28-35
Results by employer (initial results)	Appendix A, pg 36-37
Results by employer (final results)	Appendix A, pg 38

Section 7: Questions???
